
BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

1995

In the Matter of)
)
Local Exchange Carriers' Rates,)
Terms, and Conditions for) CC Docket No. 94-97
Expanded Interconnection Through) Phase II
Virtual Collocation for Special)
Access and Switched Transport)

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DIRECT CASE OF
SOUTHWESTERN BELL TELEPHONE COMPANY

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October 19, 1995

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CC Docket No. 94-97, Phase II

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SUMMARY*

Southwestern Bell submits its Direct Case in response to the Designation Order (with the exception of a response to Appendix C for which an extension has been granted). The Direct Case is arranged to address the particular questions in the order posed, and demonstrate the reasonableness of SWBT's virtual collocation tariffs.

* The abbreviations used in this Summary are as defined in the main text.

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DIRECT CASE OF
SOUTHWESTERN BELL TELEPHONE COMPANY

Southwestern Bell Telephone Company ("Southwestern Bell" or "SWBT"), pursuant to the Order Designating Issues for Investigation released September 19, 1995, by the Common Carrier Bureau ("Bureau"),¹ files its Direct Case in this matter. SWBT's Direct Case demonstrates that its virtual collocation tariffs are reasonable and justified in all respects.

I. BACKGROUND

The Virtual Collocation Order² required that certain local exchange carriers ("LECs"), including SWBT, file tariffs for virtual collocation on September 1, 1994, to be effective December 15, 1994. Those LECs were required to base these tariffs on equipment requested by interconnectors by July 31,

¹ Local Exchange Carriers' Rates, Terms and Conditions for Expanded Interconnection Through Virtual Collocation for Special Access and Switched Transport, CC Docket No. 94-97, Phase II (DA 95-2001), Order Designating Issues for Investigation, (Com. Car. Bur., released September 19, 1995) ("Designation Order").

² Memorandum Opinion and Order, CC Docket No. 91-141, FCC 94-190 (released July 25, 1994) ("Virtual Collocation Order").

1994.³ SWBT filed both interim and ongoing virtual collocation tariffs on September 1, 1994, under protest, just a little over a month after the issuance of the Virtual Collocation Order.

SWBT's responses to the individual questions raised in the Designation Order follows. Many of the questions posed have already been addressed by SWBT in its Reply Comments⁴ to the oppositions to its virtual collocation tariffs and, where appropriate, reference to that earlier submission is made and, to the extent necessary, incorporation herein by this reference.

II. ARE THE DIRECT COST COMPONENTS OF THE LECS' VIRTUAL COLLOCATION RATES JUSTIFIED?

A. Charges for Provision of Interconnector-Designated Equipment

Paragraph 21(a): SWBT, U S West and CBT must explain how their methodologies for computing rates for interconnector-designated equipment, as described in the LECS' descriptions and justifications (D&Js): (1) ensure that the rates paid by all interconnectors are derived in the same manner; and

Response: SWBT used a consistent methodology to develop all collocation rate elements for all interconnectors. Each new element that is placed in the tariff goes through an identical process whereby material and engineering costs are obtained from vendors, internal costs are determined, and an appropriate rate

³ Interconnectors were also allowed to request that equipment be made available in the LECS' tariffs by August 31, 1994, to be added by October 4, 1994.

⁴ See Southwestern Bell Telephone Tariff F.C.C. No. 73, Transmittal No. 2383, Reply Comments, filed October 31, 1994 ("Reply Comments").

is produced. As has been previously explained, SWBT's rate development methodology is:

$$\text{Direct Cost} \times \text{Overhead Loading Factor} = \text{Rate}$$

This methodology was applied consistently to all virtual collocation rate elements. Although direct costs obviously varied among rate elements, the methodology used remained the same. The use of this methodology is fully illustrated in the rate materials furnished to the Commission in SWBT's initial September 1, 1994, tariff filing as well as in response to the Phase I Designation Order.⁵

As to the overhead component, SWBT's Description and Justification described the development of the overhead loading factors and how they were applied. Specifically, the DS1 overhead was applied to IDE elements that provide DS1 only, the DS3 overhead was applied to IDE elements that provide DS3 only, and the combined DS1/DS3 overhead was applied to elements that can be used to provide DS1 or DS3.⁶

Paragraph 21(a)(2): enable interconnectors that wish to offer to sell equipment to the LECs, or to designate equipment not previously tariffed, to predict their equipment charges.

⁵ Local Exchange Carriers' Rates, Terms and Conditions for Expanded Interconnection Through Virtual Collocation for Special Access and Switched Transport, CC Docket No. 94-97, Phase I (DA 95-374, Order Designating Issues for Investigation, (Com. Car. Bur., released February 28, 1995) ("Phase I Designation Order").

⁶ Changes in the overhead loading factor have already been addressed in Phase I of this proceeding. See Local Exchange Carriers' Rates, Terms, and Conditions for Expanded Interconnection Through Virtual Collocation for Special Access and Switched Transport, CC Docket No. 94-97, Phase I, Report and Order, FCC 95-200, released May 11, 1995 (appeal pending).

Response: For recurring charges on IDE contained in SWBT's tariffs, the interconnector's rate will be the rate filed by SWBT. Neither the interconnector nor SWBT can predict the recurring charges for IDE not tariffed because the IDE is not known.

The best predictor of the nonrecurring rates ("NRCs") for IDE is SWBT's nonrecurring rates themselves, which will establish a maximum that the interconnector would have to pay assuming an economical decision. Although one component of those rates will obviously change (i.e., the IDE price) and thus change the nonrecurring rates, many of SWBT's virtual collocation rates are based upon proprietary cost data and often proprietary vendor price information as well.

Nevertheless, reasonable estimates of those NRCs can be made even without the inappropriate disclosure of cost and price data. For nonrecurring IDE rates that include publicly available vendor prices, interconnectors that wish to sell IDE⁷ can subtract those public prices from SWBT's nonrecurring IDE rates. When SWBT's IDE rates are based upon proprietary negotiated prices, interconnectors should instead subtract the manufacturer/vendor's price to the interconnector for the same IDE. In either case, the remainder would then be added to the price that the interconnector chooses to offer the IDE to SWBT to arrive at the

⁷ As with all network equipment, IDE sold by an interconnector directly to SWBT would also be subject to a purchase agreement that addresses the various contractual issues that arise in the vendor/purchaser relationship (e.g., warranties, service, software updates, delivery).

estimate. While the actual rate may vary due to proprietary data, this process does yield a reasonable estimate.

Finally, SWBT's rates currently reflect an overhead loading factor that is still subject to investigation and a "two-way" accounting order, as well as an appeal. The ability to predict any rate could be affected by the outcome of those processes.

Paragraph 21(b)(1): These LECs must explain how they determine the lowest reasonably available price after an interconnector requests that the LEC tariff a rate for a particular piece of equipment. This response should include, but not be limited to, an explanation of whether the vendor prices used reflect equipment price only, or include the vendor's charges for engineering, provisioning, or installation of the virtual collocation arrangement.

Response: Upon receipt of a request from an interconnector to tariff a rate for a specific piece of equipment, SWBT contacts the manufacturer/vendor to obtain the current best prices for the required equipment, engineering and installation labor. In cases where Southwestern Bell already has a contract with the manufacturer/vendor, the interconnector gets the benefit of SWBT's negotiated best price. The prices used by SWBT include the manufacturer/vendor charges for engineering, provisioning and installation. See Reply Comments at pp. 23-24.

Paragraph 21(b)(2): These LECs must discuss whether their procedures for determining the lowest reasonably available price differ when the interconnector designates the same type of equipment that the LEC uses in a particular central office.

Response: The procedure for determining the lowest reasonably available prices when an interconnector designates IDE that Southwestern Bell uses in the same wire center are identical

to the procedures for other equipment except that, as mentioned in response to Paragraph 21(b)(1) above, SWBT may already have negotiated contracts and prices for that IDE.

Paragraph 21(b)(3): These LECs must describe their procedures for recomputing an equipment rate when an interconnector offers to sell the LEC the desired equipment at a price lower than that upon which the tariffed rate is based.

Response: In the case of nonrecurring rates, SWBT will identify the overhead amount and other internal costs used in calculating the rate when SWBT purchases the IDE directly from the manufacturer/vendor. Those amounts will then be added to the IDE price offered by the interconnector to SWBT. In cases where SWBT has negotiated a proprietary price from the non-interconnector vendor, SWBT will reduce the overhead amount to avoid disclosing that negotiated vendor price.

SWBT's recurring rates would not change due to the direct sale of IDE by an interconnector.

Paragraph 21(c): With respect to equipment that was previously used for physical collocation, SWB, US West, and CBT must describe any procedures they have developed for computing equipment rates for this equipment based on the price at which an interconnector may offer to sell equipment.

Response: See response to question to Paragraph 21(b)(3). Southwestern Bell would not vary its process or standards due to how and where the interconnector may have earlier used the equipment.

Paragraph 21(d): Annual Cost Factors (ACFs) reflect the historical ratios between a LECs' (sic) annual expenses and unit investment. LECs multiply the annual cost factors by unit investment to derive directly assignable cost amounts such as cost of money,

depreciation and income taxes. SWBT, US West and CBI must explain whether they apply the same ACFs to direct investment when the interconnector designates the same type of equipment that the LEC uses in a given central office as when an interconnector designates a different type of equipment.

Response: As indicated in our response to a similar question in Phase I Designation Order,⁸ SWBT develops annual cost factors ("ACFs") specific to account code designations. SWBT applies the same ACFs to IDE regardless of whether an interconnector designates the same type of equipment SWBT uses in a given office, or designates a different, "nonstandard" type. In other words, SWBT applies the same ACFs to equipment used for SWBT services and to IDE. However, to the extent capital costs are recovered through NRCs, there are no capital ACFs applied to the IDE.

Paragraph 21(e): In their cost support submissions in response to the TRP Order, SWB, US West, and CBT provided "price outs" that demonstrate the overall service costs of a sample virtual collocation configuration. These LECs must specify the type of transmission equipment they used as a basis for their price outs. For example, the LECs should indicate whether they chose: the most frequently requested type of equipment; the type of equipment the LECs use to provide their comparable services; or a composite based on the different types of equipment designated by interconnectors. In addition, SWB, US West, and CBT must explain why their choice is reasonable.

Response: SWBT used the most frequently requested IDE at the time that the price-out was performed. SWBT believes that

⁸ See Direct Case of Southwestern Bell Telephone Company, at Appendix 3, filed March 21, 1995, as required by the Phase I Designation Order.

the demand exhibited by interconnectors establishes the reasonableness of its selection.

Paragraph 21(f): CBT must explain why it states in its D&J that it will offer interconnectors the option of using a \$1 sale and repurchase arrangement, but does not state in its tariff that interconnectors may obtain equipment pursuant to this optional financial arrangement.

Response: This question is not directed to SWBT.

B. Charge for Installation of Interconnector-Designated Equipment

Paragraph 26(a): Ameritech, Bell Atlantic, and GTE, which tariffed nonrecurring charges for installation of interconnector-designated equipment, must identify the components of the installation costs recovered by these nonrecurring charges. The LECs must state whether the costs of equipment installation vary depending on the type of equipment designated by the interconnector. If so, LECs must explain these differences.

Response: This question is not directed toward SWBT.

Paragraph 26(b): Ameritech, Bell Atlantic, and GTE must describe the components of the equipment installation costs recovered in their rates for their comparable DS1 and DS3 services. To the extent that these LECs' recovery of equipment installation costs differs from their recovery of the costs of installing interconnector-designated equipment, LECs must explain any differences.

Response: This question is not directed at SWBT.

Paragraph 26(c): SWB must explain how it will prevent double recovery of installation costs in instances where the interconnector arranges for an outside contractor to install its designated equipment.

Response: SWBT's tariff contains a provision which commits SWBT to provide the name of the third party contractor that is doing the installation, if any. If the interconnector wishes another contractor to perform the installation, SWBT would arrange for the installation with another SWBT-certified

contractor and the interconnector would be charged the standard tariffed nonrecurring IDE rate, which includes installation charges. As such, there would never be a "double recovery."

Paragraph 26(d): BellSouth must explain why, when it amended its tariff to remove its nonrecurring equipment installation charge, it provided an "estimate of additional engineering" that, according to BellSouth's D&J, "might be necessary" in the provision of virtual collocation service. BellSouth must clarify whether any charges for "additional engineering" are already included in its charge for provisioning the virtual collocation arrangement.

Response: This question is not directed at SWBT.

C. Charges for Maintenance and Repair of Interconnector-Designated Equipment

Paragraph 30(a): The LECs typically develop the direct costs of maintenance by applying the appropriate ACFs to direct investment. For LECs that adopted the \$1 sale and repurchase arrangement, however, it is unclear how direct investment in interconnector-designated equipment was derived. These LECs, therefore, must explain how they derived their direct investment (e.g., interconnector's invoice price, average investment in equipment).

Response: Since SWBT did not adopt the \$1 sale and repurchase arrangement, this question does not require an answer from SWBT.

Paragraph 30(b): These LECs must identify and justify any differences between their recovery of the costs of maintenance and repair of IDE and their recovery of the costs of maintenance and repair of equipment used to provide their comparable DS1 and DS3 services. LECs must reference applicable sections of their special access and switched transport tariffs.

Response: Maintenance and Repair are components of SWBT's Annual Cost Factors. As shown in our response to a similar question in Phase I Designation Order and as stated in our response to Paragraph 21(b) above, there are no differences in

the application of these ACFs to IDE, nor to equipment used by SWBT to provide service to its customers. The recurring rates in Tariff F.C.C. No. 73, Sections 6, 7, and 20 include SWBT's Maintenance and Repair. Beyond the Training rate element for nonstandard IDE, there are no unique rate elements to recover the costs of maintenance or repair of IDE.

Paragraph 30(c): These LECs must clarify the costs they recover in their monthly recurring charges for maintenance.

Response: SWBT's maintenance expense is one component of SWBT's account-specific ACF. Maintenance includes the cost of material and direct labor, with associated Social Security and pensions on the labor, for repairs to and/or rearrangements, changes and testing of plant. _

D. Charges for Cable Installation and Cable Support

Paragraph 34(a): These LECs must specify whether their virtual collocation cable installation charges recover costs associated with labor, cabling support structures, testing equipment, and engineering. These LECs must discuss whether they recover the same types of costs in the rates for their comparable DS1 and DS3 services, and explain any differences. In addition, these LECs must explain any differences between their recovery of cable installation in their rates for their comparable DS1 and DS3 services. These LECs must reference the applicable sections of their special access and switched transport tariffs.

Response: SWBT specifically identifies and recovers the costs of installing the interconnectors' fiber cable in a virtual collocation arrangement in its Entrance Cable rate element and its Cable Vault Splice rate element. The Cable Vault Splice rate element recovers the labor associated with splicing the interconnector's fiber. The Entrance Cable rate element is

described in Section 25.5.1 of SWBT's F.C.C. No. 73 tariff, and includes the labor necessary to pull the interconnector's fiber cable into Southwestern Bell's cable vault in its nonrecurring charge. The recurring charge for this rate element recovers the cost of maintaining and administering this cable and associated with "any reinforced passage or opening in, on, under, over or through the ground between the first manhole and the cable vault".⁹ Except for the cost of testing equipment, these rate elements recover all of the referenced costs.

DS1 and DS3 costs that are expensed are recovered through the nonrecurring rates. SWBT recovers all of the investment-related costs for its existing DS1 and DS3 services through the recurring rates in Sections 6, 7, and 20 of its Tariff F.C.C. No. 73. The rates in those Sections include the costs of the equipment and facilities installation, but do not segregate cable installation charges into separate rate elements. Testing equipment is also not included in DS1 or DS3 rates.

Paragraph 34(b): SWBT must describe how it derived the amount of direct investment associated with the riser tail nonrecurring rate element associated with its cable installation charge. SWBT must also explain why it is reasonable to charge a rate of \$20,687 for this service element when SWB's direct costs for the element total \$X,XXX.

Response: SWBT's tariff defines the Riser Tail as a subelement of the Entrance Cable rate element. Specifically, included in this subelement are the investment for a 72-fiber optical riser cable, a 72-connector lightguide termination shelf

⁹ SWBT Tariff F.C.C. No. 73, Section 25.5.1(D) (1).

assembly per interconnector entrance cable, and its termination on a fiber distribution frame. See SWBT Tariff F.C.C. No. 73, Section 25.5.1(D)(3). See also Reply Comments at pp. 29-31.

As to the second question, SWBT has already provided a response in its submission pursuant to the Phase I Designation Order.

E. Charges for Cross-Connection Service

Paragraph 37: The Bureau requires SWB to explain in its direct case whether its cross-connection service rates recover any investment in repeaters, or other equipment associated with cross-connections service. SWBT must specify the costs of this equipment and address why such equipment is necessary for the provision of cross-connection service. In addition, SWBT must indicate whether it included investment for repeaters in any other virtual collocation rate elements. Finally, SWBT must explain whether investment for repeaters is included in rates for the comparable DS1 and DS3 services.

Response: SWBT has not included repeaters in its cross-connection rate element or any of its other virtual collocation rate elements, and thus no repeater costs are recovered in those elements. SWBT's DS1 service rate recovers the investment costs of repeaters. Repeaters are not used with SWBT's comparable DS3 services and, therefore, their investment is not included in those rates. See Reply Comments at pp. 38-39.

F. Provisioning Charges

Paragraph 42(a): The LECs must compare their virtual collocation provisioning charges (e.g., charges for service order processing and design engineering) with any provisioning charges they impose on customers of their comparable DS1 and DS3 services. If the virtual collocation provisioning charges exceed those imposed on customers of the LECs' comparable DS1 and DS3 services, the LECs must justify the additional charges assessed for virtual collocation service.

Response: The total SWBT non-IDE, nonrecurring tariff charges for a virtual collocation arrangement are less than the total SWBT nonrecurring tariff charges for DS1 or DS3 service. See SWBT Tariff F.C.C. No. 73, Sections 5, 6, 7, and 20.

Paragraph 42(b): The LECs must specify whether they recover provisioning costs associated with their comparable DS1 and DS3 services through overhead loadings or through direct assignment to particular rate elements. In their responses, the LECs must reference the applicable section of their special access and switched transport tariffs.

Response: SWBT recovers provisioning charges¹⁰ for DS1 and DS3 services in the following manner: Service processing costs are recovered in the Access Order Charge rate element located in Tariff F.C.C. No. 73, Section 5. Circuit design engineering costs are part of the direct cost development for DS1 and DS3 services, and are recovered through a combination of nonrecurring rate elements and contribution from recurring rate elements (i.e., channel termination, channel mileage - fixed, channel mileage - per mile, multiplexing and all other rate elements including optional features and functions located in Tariff F.C.C. No. 73, Sections 6, 7 and 20).

G. Charges for Power to Interconnector-Designated Equipment

Paragraph 46(a): The LECs that recover the costs of power to IDE in their rates for virtual collocation service must identify and describe the particular power costs recovered in each nonrecurring and recurring virtual collocation rate elements. LECs must specify

¹⁰ Provisioning charges were defined by the Commission as service order process and design engineering. Designation Order at para. 42(a).

whether they recover these power costs through overhead loadings and/or through direct assignment to particular virtual collocation rate elements.

Response: These costs were identified and provided in the various cost studies provided in response to the Phase I Designation Order. SWBT identified the cost of DC power caused by IDE through the use of a company-wide power factor. The power cost in SWBT's comparable DS1 and DS3 services were identified in state-specific power factor that were applied in a manner consistent with that used for IDE power.

The power costs are recovered through SWBT's direct cost development, and not in overhead loadings. Investment-related power costs (e.g., the internal SWBT DC power plant) is recovered in nonrecurring virtual collocation rates; the recurring power costs (e.g., maintenance, administration, and repair of that plant, and electric company bills) are recovered through the recurring rates that require the need for power.

Paragraph 46(b): The LECs required to respond to (a), above, must explain whether they recover power costs in their rates for comparable DS1 and DS3 services. If so, the LECs must specify whether they recover these costs through overhead loadings or through direct assignments to the rate elements for the comparable DS1 and DS3 services. The LECs must reference the applicable sections of their special access and switched transport tariffs.

Response: As explained above, the power cost for equipment used in providing DS1 and DS3 services is identified with the identical method used for IDE, and the power investment related cost is recovered in the recurring rates for these services. As with virtual collocation, recurring rates for DS1 and DS3 also

recover power costs through application of a power factor if the rate represents activities that require power. The applicable sections of our special access and switched transport tariffs include SWBT Tariff F.C.C. No. 73, Sections 6, 7, and 20.

Paragraph 46(c): LECs that established separate power rate elements for virtual collocation service, but not for their comparable DS1 and DS3 services, must explain why this is reasonable. In addition, any LECs that bundle power costs into other rate elements for virtual collocation service, but not for their comparable DS1 and DS3 services, must explain why this is reasonable.

Response: This question does not apply to SWBT.

Paragraph 46(d): GTE must explain why it charges interconnectors both a recurring power equipment charge and a nonrecurring power equipment installation charge. In addition, GTE must describe its methodology for "determining which of the components of its physical collocation power rate elements would apply to virtual collocation."

Response: This question does not apply to SWBT.

H. Charges for Floor Space

Paragraph 52(a): BellSouth, Ameritech, CBT, and any other LEC that recovers the costs of floor space in its rates for virtual collocation service, must describe the particular floor space costs recovered in their nonrecurring and recurring virtual collocation rate elements. These LECs must specify whether they recover these floor space costs through overhead loadings or through directly assignment to particular virtual collocation rate elements.

Response: SWBT develops floor space cost for virtual collocation using a building factor. These floor space costs are not part of the overhead loading, but rather recovered through SWBT's direct cost development using that building factor.

Paragraph 52(b): The LECs required to respond to (a), above, must explain whether they recover the costs of floor space in their rates for their comparable DS1 and DS3 services. If so, the LECs must specify whether

they recover these floor space costs through overhead loadings or through directly assignment to the rate elements for their comparable DS1 and DS3 services. The LECs must reference the applicable sections of their special assess and switched transport tariffs.

Response: SWBT also recovers floor space costs for DS1 and DS3 services in SWBT's direct cost development in the recurring rate elements (i.e., channel termination, channel mileage - fixed, channel mileage - per mile, multiplexing and all other rate elements including optional features and functions located in Tariff F.C.C. No. 73, Sections 6, 7 and 20). The building factor is applied in the same manner for DS1 and DS3 services and virtual collocation arrangements.

Paragraph 52(c): LECs that established separate floor space rate elements for virtual collocation service, but not for their comparable DS1 and DS3 services, must explain why this is reasonable. In addition, any LEC that bundled floor space costs into other rate elements for virtual collocation service, but not for their comparable DS1 and DS3 services, must explain why this is reasonable.

Response: This question does not apply to SWBT.

I. Cost of Money Factors

Paragraph 55: The Bureau requires LECs subject to this investigation to provide the cost of money factor used for their virtual collocation services and for the comparable DS1 and DS3 services with the lowest overhead loadings. The LECs must justify any differences in these cost of money factors. In their responses, the LECs must include the interest rate, depreciable life, and time period (in years) for computing the present discounted value.

Response: SWBT's cost of money is 10.63%. Recognizing the cost of money factor is a capital cost component of SWBT's ACFs, SWBT has previously provided the Bureau the cost of money factors in Phase I of this investigation. Attachment A is the state-

specific digital circuit data used to develop weighted SWBT depreciation data.¹¹ Attachment B is a copy of SWBT's confidential annual cost factors and the components from which those factors are derived. And, as has already been noted in SWBT's responses to Paragraphs 21 and 30 above, SWBT computes ACFs on an account code basis and not on a service-specific basis; other than vintage, there are no differences between the ACF for virtual collocation services and the ACF for comparable DS1 and DS3 services. See Reply Comments at pp. 21-23.

J. Completion of Direct Cost Information Charts

As permitted by Bureau Order, Attachment C is being submitted in partial response to Appendix C.¹² A complete response to Appendix C will be provided no later than October 26, 1995.

III. ARE THE RATE STRUCTURES ESTABLISHED IN THE VIRTUAL COLLOCATION TARIFFS JUSTIFIED?

A. Nonrecurring Charges for Interconnector-Designated Equipment

Paragraph 63(a): The LECs must explain why, instead of recovering the cost of the interconnector-designated equipment through recurring charges, they impose nonrecurring charges. In addition, these LECs should justify their procedures for disposition of the interconnector-designated equipment after termination of the virtual collocation arrangement.

Response: See Reply Comments at pp. 31-34. The nonrecurring charges SWBT has identified in its tariff attempt to

¹¹ Attachment B is filed under F.O.I.A. Exemption 552(b)(4), 5 U.S.C. 552(b)(4).

¹² Attachment C is also being submitted under F.O.I.A. Exemption 552(b)(4), 5 U.S.C. 552(b)(4).

ensure the total recovery of all nonrecurring costs associated with IDE, and to protect SWBT and its customers from bearing the costs caused by an interconnector. An interconnector must be responsible for all costs caused by the IDE (e.g., engineering, material, installation, turn-up) dedicated to its exclusive use. SWBT has no desire to, nor should be required to, finance its competitors' operations. Recovering these cost through recurring charges unnecessarily places SWBT and its customers at the financial risk of third parties.

Furthermore, if SWBT were to recover the dedicated interconnector costs via recurring charges, SWBT would have to capitalize the equipment. Like any other business, SWBT has budget constraints. Any capital dollars SWBT expends on IDE represents capital dollars SWBT cannot use to improve or expand services to its own customer and the general public.

Finally, as the Commission is aware, interconnectors have voiced a preference for physical collocation. Under that type of arrangement, the interconnector must purchase, finance, and install their own equipment in a LEC central office. The requirement to pay IDE costs as a one-time nonrecurring charge for virtual collocation is fundamentally the same financial arrangement -- designated, dedicated, and installed equipment is paid for by the interconnector upon completion of the collocation arrangement.

To date, no interconnector has terminated any virtual collocation arrangement with Southwestern Bell. Should that

occur in the future, current plans are for all equipment dedicated to the specific interconnector to be removed from the central office location and not reused by SWBT. As explained in the Reply Comments and in response to Paragraph 63(c), SWBT has no forecasted use for IDE after a virtual collocation arrangement is terminated.

Paragraph 63(b): The LECs must address whether they developed their nonrecurring virtual collocation charges based on the net present value of recurring annual expenses, such as administration expenses, taxes, and maintenance. Any LEC that developed nonrecurring virtual collocation charges in this manner must explain all assumptions used and why this methodology is reasonable. In addition, LECs must address whether they developed nonrecurring charges for their comparable DS1 and DS3 services in the same manner, and if not, explain the basis for the difference in treatment.

Response: SWBT's development of an ACF and its various components, such as administration expenses, is exclusive of net present value computations. As has been stated in response to previous questions, ACFs are not service-specific; they are account code specific.

Paragraph 63(c): LECs must describe their rate structures for recovering the costs of circuit equipment used for their comparable DS1 and DS3 services. If these LECs use recurring charges to recover the costs of equipment deployed for their comparable DS1 and DS3 services, LECs must explain why it is reasonable to use a different rate structure for interconnector-designated equipment -- particularly where an interconnector designates the same type of equipment that the LEC uses to provide its own comparable DS1 and DS3 services.

Response: SWBT recovers the cost of circuit equipment for DS1 and DS3 services through recurring rates. Circuit equipment for virtual collocation is recovered through the IDE nonrecurring

charges. Nonrecurring charges for virtual collocation were not developed in the same manner as DS1 and DS3 services for several reasons. Fundamentally, however, the similarity between DS1 and DS3 special access services and virtual collocation arrangements begins and ends with signal handoff to a customer or interconnector.

Virtual collocation elements are not similar to a line card nor any other equipment used by SWBT to provide any service. SWBT's DS1 and DS3 services are provided using SWBT's shared network infrastructure, without dedication of any particular piece of that infrastructure. Circuit equipment is one type of equipment which makes up this infrastructure. The costs of circuit equipment directly caused by DS1 and DS3 services are recovered through recurring charges that reflect the direct increases in network costs caused by increases in DS1 or DS3 demand.

In contrast, IDE represents circuit equipment which is specifically and entirely caused by, and dedicated to, a single interconnector. IDE, whether similar in type to that purchased by SWBT or not, is not infrastructure. Unlike infrastructure, SWBT does not have the latitude to change or rearrange IDE in any manner as the interconnector, per Commission order, has control and monitoring capabilities. As such, the cost of IDE is specific to an interconnector's request and are properly recovered through a one-time nonrecurring charge.

Also, much of the equipment specified by potential interconnectors for inclusion in SWBT's tariff is of a type or configuration not used in SWBT's network. As such, SWBT has no use for that IDE other than providing the interconnector's unique virtual collocation arrangement.

In addition, SWBT forecasts its own needs for network infrastructure to meet customer demand, and cannot forecast and include the plans and future actions of interconnectors. In the event that an interconnector abandons the dedicated equipment, SWBT could not reuse the equipment (especially if "nonstandard"), nor be assured of full recovery of its costs without use of a nonrecurring rate structure.

B. Charges for Training

Paragraph 70(a): The Bureau requires the LECs subject to this investigation to provide the following information in their direct cases: Several LECs charge an averaged per diem charge for training expenses. These LECs must comment on whether it is reasonable to establish a generally available averaged per diem charge for travel expenses that would include: food, lodging, transportation, training seminar costs, and technician wages. These LECs also must discuss whether it is reasonable to develop a nonrecurring charge that recovers these travel expenses.

Response: See Reply Comments at pp. 40-42. SWBT attempted to address this problem in its original September 1, 1994, virtual collocation tariff filing by allowing interconnectors to pay the specific and exact charges incurred to train SWBT technicians on unfamiliar IDE on an individual case basis ("ICB"). However, in its Order released December 9, 1994, the Bureau ordered SWBT to delete tariff references that contained

such ICB pricing, and replace them with specific rates or time and materials charges.

SWBT therefore filed nonrecurring tariffed rates for all reasonably anticipated charges that occur as a result of training required for SWBT technicians on unfamiliar IDE that would allow SWBT to install and maintain and repair the IDE on a 24-hour a day, 7-day a week basis as ordered by the Commission. SWBT's rates now reflect the actual cost of training and materials for a specific "nonstandard" equipment type that interconnectors indicated they would require SWBT to purchase for their use as IDE. To date, however, interconnectors have requested their virtual collocation arrangements be provisioned with only one equipment manufacturer that is not SWBT's "standard" choice of equipment and two inquiries from a single interconnector regarding one nonstandard manufacturer.

SWBT's per diem per employee is as specified in Article XVI of the 1992 Labor Agreement between the Communication Workers of America and Southwestern Bell. Airport parking and local transportation are also based on that 1992 Labor Agreement. SWBT is clearly unable to average or otherwise vary those contracted rates. For these charges, SWBT is asking to be reimbursed for actual expenses incurred as a result of the interconnector's unique and specific request.

Travel expenses are most appropriately and reasonably recovered through ICBs. In light of the Commission's refusal to allow their use, a nonrecurring tariffed charge is a reasonable